

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 AGR-05 INT-05 FEA-01 DODE-00 IO-10 L-03 TAR-01

PA-01 PRS-01 /105 W

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R 292055Z DEC 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 8162

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DEPT PASS TO AID

FOR: ARA - MR. FISHLOW; S/P - MR. EINAUDI; TREASURY - MR. MARESCA

EO 11652: NA

TAGS: EGEN, EFIN, EINV, PFOR, PE

SUBJECT: BALANCE OF PAYMENTS REVIEW

REF: STATE 275435

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1. SUMMARY: PERU'S B/P SITUATION DETERIORATED IN 1975. WE FORESEE LITTLE RELIEF IN 1976. MEASURES ALREADY TAKEN BY GOP IN SECOND HALF OF 1975, ANTICIPATE AUSTERITY PROGRAM (TO BE ANNOUNCED EARLY 1976), AND SUITABLE COMPENSATORY FINANCING SHOULD PREVENT MAJOR DISRUPTION OF THE PERUVIAN ECONOMY. NO SUBSTANTIAL IMPROVEMENT IN B/P SITUATION LIKELY UNTIL 1977 WHEN COMPLETION OF SEVERAL INVESTMENT PROJECTS SHOULD BRING SUBSTANTIAL IMPROVEMENT TO B/P TRADE ACCOUNT.

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2. RE PARA 3 (A) REFTEL.

EXPORTS (FOB)	1974 (A)	1975 (C)	1976 (C)
	(MILLIONS OF DOLLARS)		
FISHMEAL	202	202	240
COPPER	300	199	259
SILVER	137	168	171
ZINC	150	159	148
SUGAR	172	260	129
TOTAL EXPORTS	1,506	1,438	1,485

FOOTNOTES FOR SOURCES: (A) MINISTRY OF ECONOMY AND FINANCE, SEPTEMBER 26, 1975; (B) MISSION CALCULATIONS BASED ON REGISTERED EXPORT EARNINGS FIRST HALF 1975 AND ESTIMATES BASED ON EXPECTED VOLUME SECOND HALF 1975 AND TENDENCIES AVERAGE PRICES IN PRINCIPAL MARKETS; (C) PROJECTED ON BASIS OF EXPECTED VOLUMES THE AVERAGE PRICES PRINCIPAL MARKETS IN 1976: 63 CENT-PER-POUND LME COPPER, 4.40 DOLLARS-PER-TROY-OUNCE H&H NEW YORK SILVER, 35 CENT-PER-POUND E. ST. LOUIS PW ZINC, 240 DOLLARS-PER-MT PERUVIAN FISHMEAL, AND WORLD SUGAR 13 DOLLARS PER CWT. FOR 1976 A ONE-CENT-PER-POUND CHANGE IN PRICE OF COPPER ALTERS FOB EARNINGS BY \$3.65 MILLION, AND ONE-CENT-PER-POUND CHANGE IN PRICE OF ZINC, \$4.22 MILLION, AND ONE-CENT-PER-POUND CHANGE IN PRICE OF SUGAR, \$9.92 MILLION. A TEN-CENT-PER-OUNCE CHANGE IN PRICE OF SILVER ALTERS EARNINGS BY \$4.22 MILLION. INASMUCH AS ALL OF OUR PRICE ASSUMPTIONS ARE CONSERVATIVE SPECULATIONS, TOTAL EXPORT EARNINGS IN 1976 OF UP TO 1,600 MILLION DOLLARS (FOB) CAN BE VIEWED AS CONSERVATIVE.

3. RE PARA 3 (B) REFTEL. IMPORT ITEMS CITED BELOW ARE ON CIF BASIS:

	1974	1975	1976
	(MILLIONS OF DOLLARS)		
PETROLEUM (CRUDE)	142	171	188
03549)37. (DERIVATIVES)	49	46	51
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WHEAT	136	152	173
CORN	41	41	60
SORGHUM	8	6	6
RICE	-	26	37
SOYBEANS	4	10	10
SOYBEAN OIL	40	31	20

4. RE PARA 7 REFTEL, VOLUME OF FOOD IMPORTS ESTIMATED

(BUT SUBJECT TO REVISION) ARE AS FOLLOWS ON THOUSANDS OF METRIC TONS:

	CY 1975	CY 1976
2#3-5	820	865
CORN	300	400
SORGHUM	50	50
RICE	70	100
SOYBEANS	47	50
SOYBEAN OIL	51	50

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5. RE PARAS 3 (B THROUGH F) AND 4 (D AND E) REFTEL. DATA AVAILABLE TO US ON PERU'S BALANCE OF PAYMENTS FOR THE PERIOD 1974-1976 IS QUITE INCOMPLETE AT THIS TIME. IMF CONSULTATION TEAM VISITED LIMA IN NOVEMBER 1975 AND DID NOT COMPLETE CALCULATIONS FOR ESTIMATES B/P ITEMS FOR CY 1975 AND REPORTED NO INTENTION TO PREPARE ESTIMATE FOR CY 1976. CENTRAL BANK OF PERU TURNED DOWN OUR REQUEST FOR B/P DATA (BUT MAY GIVE ADVICE IN THE FUTURE). LATEST B/P DATA PUBLISHED BY CENTRAL BANK IS SUMMARY STATEMENT OF B/P ITEMS ONLY THROUGH CY 1973. INFORMATION REQUESTED REFTEL ON CAPITAL FLOWS, EXTERNAL DEBT, AND DEBT SERVICE REQUIRES ACCESS TO BEST JUDGMENTS OF GOP OFFICIALS ON LOAN-BY-LOAN BASIS FOR CY 1975 AND CY 1976. ALTHOUGH SUCH INFORMATION MAY BE PREPARED BY GOP ENTITIES, BOTH INFORMATION AT THIS LEVEL OF DETAIL AND NORMAL AGGREGATES ARE TREATED AS HIGHLY CONFIDENTIAL WITHIN GOP.

6. PERU'S B/P ACCOUNTS IN DETAIL ARE PRESENTED AS FOLLOWS AND SHOULD BE REGARDED AS HIGHLY SPECULATIVE IN REGARD TO 1975 AND 1976:
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	1974	1975	1976
(MILLIONS OF U.S. DOLLARS)			
(A) EXPORTS, FOB	1,506	1,438	1,485
(B) IMPORTS, FOB	-1,909	-2,491	-2,000
(C) TRADE BALANCE	-403	-1,053	-515
(D) NET SERVICES	-363	-500	-550
(E) NET TRANSFERS	40	45	50
(F) CURRENT BALANCE	-726	-1,508	-1,015
(G) PRIVATE, LONG-TERM	52	75	50
CAPITAL, NET			
(H) PUBLIC SECTOR UTILIZATION	1,052	1,200	1,400
(I) PUBLIC SECTOR	-366	-400	-450
AMORTIZATION			
(J) SHORT-TERM CAPITAL	261	100	100

(K) BALANCE ON CAPITAL ACCOUNT	998	975	1,100
(L) ALLOCATION OF SDR'S	--	--	--
(M) TOTAL BALANCE	272	-533	85

DATA FOR 1974 ARE PRELIMINARY IMF ESTIMATES. ESTIMATES FOR 1975 AND 1976 ARE OUR ESTIMATES AND, WITH THE EXCEPTIONS OF IMPORTS AND EXPORTS, ARE BASED SOLELY UPON PREVIOUS TENDENCIES. WE ASSUME THAT 75 PERCENT OF THE GOSS PUBLIC SECTOR CAPITAL INFLOW AND NET LONG-TERM PRIVATE SECTOR INFLOW HAS FINANCED IMPORTS LINKED TO PROJECTS. THUS, "UNFINANCED" IMPORTS WERE \$1,081 MILLION IN 1974 AND \$1,535 MILLION IN 1975.
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INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 8163

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FOR 1976 OUR FIGURE OF \$1,400 MILLION FOR PUBLIC SECTOR UTILIZATION INCLUDES AT LEAST \$450 MILLION IN COMPENSATORY TYPE LOANS FROM PRIVATE COMMERCIAL BANKS AND, POSSIBLY, THE IMF. WITHOUT SUCH COMPENSATORY LOANS, GROSS PUBLIC SECTOR CAPITAL INFLOWS PLUS NET LONG-TERM PRIVATE SECTOR INFLOW WOULD BE SUBSTANTIALLY LOWER, APPROXIMATELY \$950 MILLION AND WOULD ACCOUNT FOR \$713 MILLION IN PROJECT-LINKED IMPORTS. WE PRESUME THAT IN

CONTRAST TO THE "UNFINANCED IMPORTS" OF \$1,535 MILLION
IN 1975, THERE WILL BE A REDUCTION OF ABOUT \$200 MILLION
OF "UNFINANCED IMPORTS" IN 1976 TO \$1,300 MILLION
BECAUSE OF HIGHER EXCHANGE RATE AND IMPACT OF FORTHCOMING
AUSTERITY PROGRAM TO REDUCE DEMAND. FAILING COMPENSATORY
LOANS AND AN AUSTERITY PROGRAM, PERU RUNS THE RISK OF
BEING UNABLE TO PAY FOR ESSENTIAL IMPORTS.
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7. RE PARA 6 REFTEL. THE ADJUSTMENT GOALS PURSUED BY
THE GOP INCLUDE REDUCTION OF IMPORTS, EXPANSION OF
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EXPORTS, LIMITATION OF CREDIT EXPANSION, AND IMPROVED
FINANCIAL PERFORMANCE OF THE CENTRAL GOVERNMENT AND
PUBLIC SECTOR AS A WHOLE. IN MID-1975, IN AN ABRUPT
CHANGE IN POLICY, THE GOP RAISED ON-FARM AND RETAIL
PRICES OF BASIC FOOD ITEMS IN AN ATTEMPT TO STIMULATE
PRODUCTION, REDUCE FOOD IMPORTS, AND REDUCE FISCAL
EXPENDITURES ON SUBSIDIES. PRICES OF PETROLEUM PRODUCTS,
TRANSPORT TARIFFS, ELECTRICAL ENERGY AND CERTAIN
CONSTRUCTION MATERIALS WERE ALSO INCREASED. ON
SEPTEMBER 26, 1975, THE TRADE RATE SOL WAS DEVALUED
FROM 38.7 SOLES TO THE U.S. DOLLAR TO 45.0 SOLES. THE
MINISTER OF ECONOMY AND FINANCE IS EXPECTED TO ANNOUNCE
A NEW SET OF AUSTERITY-INDUCING MEASURES SHORTLY (SEE
ALSO LIMA 10141 AND 10434). IN THE SECOND HALF OF 1975,
THE GOP HAS FOLLOWED ORTHODOX MEASURES TO IMPROVE FISCAL
BALANCE, REDUCE IMPORT EXPENDITURES, EXPAND EXPORT
EARNINGS, AND REPORTEDLY HAS REDUCED THE GROWTH
OF MONEY AND CREDIT. LATEST INDICATION OF RATE OF
INFLATION IS LIMA CPI WHICH INCREASED BY 26.3 PERCENT
FROM SEPTEMBER 1974 TO SEPTEMBER 1975.

8. RE PARA 4 REFTEL.

(A) GNP IN CURRENT DOLLARS (BILLIONS).

1974	1975	1976
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10.3	13.0	15.0#
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(B) REAL GDP GROWTH RATE (IN PERCENT)

1974	1975	1976
------	------	------

6.6	5.5	3.0#
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(C) RATE OF INFLATION (LIMA CPI IN PERCENT)

1974	1975	1976
------	------	------

16.9	25.0#	25.0#
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9. GOP SUSPENDED PUBLICATION DETAILED NATIONAL ACCOUNTING DATA AND APPOINTED HIGH-LEVEL COMMISSION TO REVIEW CALCULATION PROCEDURES. LATEST DETAILED DATA AVAILABLE TO US IS FOR CY 1973. DATA PRESENTED ABOVE WITH ASTERISK (#) ARE OUR ESTIMATES; OTHER DATA FROM GOP. FOR 1976 ESTIMATES ARE BASED ON EXPECTED IMPACT GOP AUSTERITY PROGRAM.

10. RE PARA 4 (D) REFTEL. DATA ON PUBLIC AND PUBLICLY GUARANTEED DEBT ARE AVAILABLE ONLY TO END OF 1974. BREAKDOWN OF DISBURSED DEBT IN MILLIONS OF U.S. DOLLARS IS AS FOLLOWS: MULTILATERAL - 243; BILATERAL OFFICIAL - 642; PRIVATE COMMERCIAL BANKS - 914; SUPPLIER CREDITS - 384. UPCOMING IMF REPORT MAY PROVIDE ADDITIONAL INFORMATION. THE MAJOR OPEC CREDIT IS \$65 MILLION LOAN FROM VENEZUELA REPORTED IN LIMA 4044 WHICH FINANCES A SUBSTANTIAL PORTION OF PERU'S OIL IMPORTS FROM VENEZUELA AND ECUADOR.

11. AS REPORTED IN LIMA 0865, PERU'S EXTRAORDINARY ACCESS TO EXTERNAL FINANCING DURING PERIOD 1972-1974 FOR DEVELOPMENT PROJECTS AND DEBT REFINANCING WAS BASED ON ASSUMPTION OF SUBSTANTIALLY INCREASED EXPORT EARNINGS FROM PETROLEUM AND COPPER BY 1977. PRESENT PROSPECTS STILL SUGGEST SUBSTANTIAL INCREASE IN FOREIGN EXCHANGE AVAILABILITIES BEGINNING IN 1977 FROM INCREASED COPPER AND PHOSPHATE EXPORTS AND FROM REDUCED PETROLEUM IMPORTS. HOWEVER, NEAR-TERM PROSPECTS, AND IN PARTICULAR THOSE FOR 1976, ARE NOT BRIGHT. THE CUMULATIVE EFFECTS OF PREVIOUS MONETARY-FISCAL IMBALANCE CONTRIBUTED TO AN UPSURGE OF IMPORTS, A NEED TO DEVALUE SOL, AND A DRAIN OF FOREIGN EXCHANGE IN 1975. THUS, B/P SITUATION HERE PRESENTLY AT CRUCIAL POINT. RECENT ANALYSIS PUBLISHED IN DECEMBER ANDEAN REPORT STATES "PERU NOW SEEMS TO HAVE REACHED UPPER LIMIT FOR BORROWINGS FROM SUPPLIERS AND THE COMMERCIAL BANKS; THE INCREASE IN NET INFLOWS WILL HAVE TO COME FROM THE INTERNATIONAL AGENCIES. ... JUST WHAT THE GAP IS IS DIFFICULT TO DETERMINE AS THE GOVERNMENT HAS STOPPED GIVING OUT FIGURES. EVEN THE STATE

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BANKS ARE NOT RECEIVING INFORMATION AND PUBLICATION OF THE BANCO CONTINENTAL'S RESPECTED QUARTERLY REPORT HAS BEEN SUSPENDED BECAUSE OF THIS. WITH THIS KIND OF BLACKOUT, PEOPLE TEND TO ASSUME THE WORST." THE ANDEAN REPORT GOES ON TO PRESENT A ROUGH ESTIMATE OF PERU'S 1975 BALANCE OF PAYMENTS ITEMS IN MILLIONS OF U.S. DOLLARS AS FOLLOWS: TRADE DEFICIT - 1,100; NET DEFICIT ON SERVICES AND TRANSFERS - 650; NET CAPITAL ACCOUNT INFLOW - 1,100; AND OVERALL DEFICIT - 650. REPORT STATES NET INTERNATIONAL RESERVE POSITION OF 700 MILLION DOLLARS AT END OF 1974 AND IS LIKELY TO BE 50 MILLION DOLLARS AT THE END OF 1975. IF TRUE, THIS WOULD BE A MOST DIFFICULT POSITION. HOWEVER, OUR ASSUMPTIONS PLACE 1975 YEAR-END NET RESERVES AT CLOSE TO 200 MILLION DOLLARS.

12. COMMENT: NO GOP POLICY FOR NORMAL B/P MANAGEMENT WILL SOLVE THE 1976 PROBLEM. WHAT IS REQUIRED IS SOME TYPE OF BRIDGE FINANCING TO 1977 AND 1978. THEREFORE, IT IS HIGHLY PROBABLE THAT THE GOP WILL SEEK \$500 MILLION OR MORE FROM WESTERN COMMERCIAL BANKS. POSSIBLE AVENUES OF APPROACH TO MANAGING B/P PROBLEM MIGHT INCLUDE: (1) RENEGOTIATION OF EXTERNAL DEBT, (2) A STANDBY WITH OR DRAWINGS ON THE IMF, AND (3) A SHORT-TERM CREDIT PACKAGE WITH PRIVATE COMMERCIAL BANKS. FIRST ALTERNATIVE MAY BE PERCEIVED BY GOP AS LIKELY TO REDUCE CREDIBILITY FOR APPROACH TO PRIVATE COMMERCIAL BANKS, AS WELL AS POTENTIALLY SERIOUS DOMESTIC POLITICAL PROBLEMS. USE OF IMF FACILITIES IS POLITICALLY DISTASTEFUL. HOWEVER, THE RELUCTANCE OF COMMERCIAL BANKS COULD PROBABLY BE OVERCOME BY SOME COMBINATION OF THE THREE APPROACHES, INCLUDING PARTIAL RENEGOTIATION OF EXTERNAL DEBT. SUCCESS IN THIS ENDEAVOR (AND IN PARTICULAR WITHOUT AN IMF STANDBY) DEPENDS UPON THE CREDIBILITY OF THE FORTHCOMING AUSTERITY PROGRAM. TIME IS A LIMITING FACTOR BECAUSE CARRYING A LOW RESERVE POSITION FOR TOO LONG WILL PROBABLY RESULT IN INCREASING DOUBTS AMONG MAJOR COMMERCIAL BANK LENDERS ABOUT PERU'S CREDITWORTHINESS.
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